

HEALTHSOUTH CORP  
Form 8-K  
February 27, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 8-K  
CURRENT REPORT

Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934  
Date of Report (date of earliest event reported): February 27, 2013

HealthSouth Corporation  
(Exact name of Registrant as specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

001-10315

(Commission File Number)

63-0860407

(IRS Employer Identification No.)

3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243

(Address of Principal Executive Offices, Including Zip Code)

(205) 967-7116

(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- £ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - £ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - £ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - £ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 7.01. Regulation FD Disclosure.

Subsequent to its earnings release for the fourth quarter of 2012, HealthSouth Corporation (“HealthSouth” or the “Company”) assembled an Investor Reference Book, which is attached to this Current Report on Form 8-K as Exhibit 99.1 (the “Investor Reference Book”). The Investor Reference Book addresses, among other things, an overview of the Company and its industry, a historical perspective of the Company, the Company's business outlook, the Company's financial and operational metrics and initiatives, and the Company's value proposition. The Investor Reference Book is available at <http://investor.healthsouth.com> by clicking on an available link.

The Company reiterates as of the date hereof its guidance for 2013, as previously reported in the press release furnished as an exhibit to the Current Report on Form 8-K dated February 19, 2013 and during the Company's earnings conference call held on February 19, 2013.

The Company uses “same-store” comparisons to explain the changes in certain performance metrics and line items within its financial statements. Same-store comparisons are calculated based on hospitals open throughout both the full current periods and throughout the full prior periods presented. These comparisons include the financial results of market consolidation transactions in existing markets, as it is difficult to determine, with precision, the incremental impact of these transactions on the Company's results of operations.

The information contained in this Item 7.01 is being furnished pursuant to Item 7.01 of Form 8-K, “Regulation FD Disclosure.” This information shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Note Regarding Presentation of Non-GAAP Financial Measures

The financial data contained in the Investor Reference Book attached as Exhibit 99.1 includes non-GAAP financial measures, including the Company's leverage ratio and Adjusted EBITDA. The leverage ratio referenced therein is defined as the ratio of consolidated total debt to Adjusted EBITDA for the trailing four quarters. The Company believes its leverage ratio and Adjusted EBITDA are measures of its ability to service its debt and its ability to make capital expenditures. Additionally, the leverage ratio is a standard measurement used by investors to gauge the creditworthiness of an institution. The Company's credit agreement also includes a maximum leverage ratio financial covenant which allows the Company to deduct up to \$75 million of cash on hand from consolidated total debt. The Company reconciles Adjusted EBITDA to net income and to net cash provided by operating activities.

The Company uses Adjusted EBITDA on a consolidated basis as a liquidity measure. The Company believes this financial measure on a consolidated basis is important in analyzing its liquidity because it is the key component of certain material covenants contained within the Company's credit agreement, which is discussed in more detail in Note 8, Long-term Debt, to the consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2012 (the “2012 Form 10-K”). These covenants are material terms of the credit agreement. Noncompliance with these financial covenants under the credit agreement—its interest coverage ratio and its leverage ratio—could result in the Company's lenders requiring the Company to immediately repay all amounts borrowed. If the Company anticipated a potential covenant violation, it would seek relief from its lenders, which would have some cost to the Company, and such relief might not be on terms favorable to those in the Company's existing credit agreement. In addition, if the Company cannot satisfy these financial covenants, it would be prohibited under the credit agreement from engaging in certain activities, such as incurring additional indebtedness, making certain payments, and acquiring and disposing of assets. Consequently, Adjusted EBITDA is critical to the Company's assessment of its liquidity. In general terms, the credit agreement definition of Adjusted EBITDA, referred to as “Adjusted Consolidated EBITDA” there, allows the Company to add back to consolidated net income interest expense, income taxes, and depreciation and amortization and then add back to consolidated net income (1) all unusual or nonrecurring items reducing consolidated net income (of which only up to \$10 million in a year may be cash expenditures), (2) costs and expenses related to refinancing transactions (in years prior to 2012), (3) any losses from discontinued operations and closed locations, (4) costs and expenses, including legal fees and expert witness fees, incurred with respect to litigation associated with stockholder derivative litigation, including the matters related to Ernst & Young LLP and Richard Scrushy discussed in Note 19, Contingencies and Other Commitments, to the consolidated financial statements accompanying the 2012 Form 10-K, and (5) share-based compensation expense. The Company also subtracts from

consolidated net income all unusual or nonrecurring items to the extent increasing consolidated net income.

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Under the credit agreement, the Adjusted EBITDA calculation does not include net income attributable to noncontrolling interests and includes (1) gain or loss on disposal of assets, (2) professional fees unrelated to the stockholder derivative litigation, and (3) unusual or nonrecurring cash expenditures in excess of \$10 million. These items may not be indicative of the Company's ongoing performance, so the Adjusted EBITDA calculation presented here includes adjustments for them.

Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles in the United States of America ("GAAP"), and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Therefore, Adjusted EBITDA should not be considered a substitute for net income or cash flows from operating, investing, or financing activities. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. Revenues and expenses are measured in accordance with the policies and procedures described in Note 1, Summary of Significant Accounting Policies, to the consolidated financial statements accompanying the 2012 Form 10 K.

The Company also uses adjusted free cash flow as an analytical indicator to assess its performance. Management believes the presentation of adjusted free cash flow provides investors an efficient means by which they can evaluate the Company's capacity to reduce debt and pursue development activities. The calculation of adjusted free cash flow and a reconciliation of net cash provided by operating activities to adjusted free cash flow is included in the Investor Reference Book attached as Exhibit 99.1. This measure is not a defined measure of financial performance under GAAP and should not be considered as an alternative to net cash provided by operating activities. The Company's definition of adjusted free cash flow is limited and does not represent residual cash flows available for discretionary spending. Because this measure is not determined in accordance with GAAP and is susceptible to varying calculations, it may not be comparable to other similarly titled measures presented by other companies. See the consolidated statements of cash flows included in the 2012 Form 10-K for the GAAP measures of cash flows from operating, investing, and financing activities.

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## Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA

	Three Months Ended		Year Ended December 31,			2009	2008	2007
	December 31, 2012	2011	2012	2011	2010			
	(In Millions)							
Net cash provided by operating activities	\$ 109.3	\$ 129.5	\$ 411.5	\$ 342.7	\$ 331.0	\$ 406.1	\$ 227.2	\$ 230.6
Provision for doubtful accounts	(7.2 )	(6.1 )	(27.0 )	(21.0 )	(16.4 )	(30.7 )	(23.0 )	(28.5 )
Professional fees—accounting, tax, and legal	2.9	4.8	16.1	21.0	17.2	8.8	44.4	51.6
Interest expense and amortization of debt discounts and fees	24.3	23.1	94.1	119.4	125.6	125.7	159.3	229.2
UBS Settlement proceeds, gross	—	—	—	—	—	(100.0 )	—	—
Equity in net income of nonconsolidated affiliates	3.0	3.2	12.7	12.0	10.1	4.6	10.6	10.3
Net income attributable to noncontrolling interests in continuing operations	(12.3 )	(12.5 )	(50.9 )	(47.0 )	(40.9 )	(33.3 )	(29.8 )	(31.1 )
Amortization of debt discounts and fees	(1.0 )	(0.9 )	(3.7 )	(4.2 )	(6.3 )	(6.6 )	(6.5 )	(7.8 )
Distributions from nonconsolidated affiliates	(3.1 )	(3.3 )	(11.0 )	(13.0 )	(8.1 )	(8.6 )	(10.9 )	(5.3 )
Current portion of income tax expense (benefit)	2.2	2.1	5.9	0.6	2.9	(7.0 )	(72.8 )	(330.4 )
Change in assets and liabilities	9.3	(15.8 )	60.7	49.9	2.8	(2.1 )	50.6	5.5
Net premium paid on bond issuance/redemption	1.9	—	1.9	22.8	—	—	—	—
Change in government, class action, and related settlements liability	—	(2.0 )	(2.6 )	(8.5 )	2.9	11.2	7.4	171.4
Cash (provided by) used in operating activities of discontinued operations	(0.5 )	0.3	(2.0 )	(9.1 )	(13.2 )	(5.7 )	(32.5 )	(3.3 )
Other, including realized (gains) losses on sales								